1999 Country Reports on Economic Policy and Trade Practices
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TUNISIA

Key Economic Indicators

(Millions of U.S. Dollars unless otherwise indicated)

	1997	1998	1999 1/
Income, Production and Employment:			
Nominal GDP 2/	16,594.7	17,3463.3	18,733.7
Real GDP Growth (pct) 3/	5.4	5.0	6.2
GDP by Sector:			
Agriculture	2,533.4	2,4812	2,732.1
Manufacturing	3,496.7	3,636.8	3,924.7
Services	6,514.0	6,919.9	7,535.2
Government	2,565.0	2,680.4	2,797.1
Per Capita GDP (US$)	1,953.4	2,098.2	2,238.2
Labor Force (000's)	2,850	2,920	2,990
Unemployment Rate (pct)	16	16	15.6
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	16	6	9
Consumer Price Inflation	3.7	3.1	3.0
Exchange Rate (TD/US$ annual average)			
Official	1.1	1.1	1.2
Parallel	N/A	N/A	N/A
Balance of Payments and Trade:			
Total Exports FOB 4/	5,589.0	5,717.8	5,878.2
Exports to U.S. 4/	37.6	28.3	49.5
Total Imports CIF 4/	7,994.1	8,324.1	8,373.0
Imports from U.S. 4/	343.4	287.7	411.3
Trade Balance 4/	-2,405.1	-2,606.3	-2,494.8
Balance with U.S.	-305.7	-259.4	-361.8
External Public Debt	9,836.4	9,409.6	10,265.0
Fiscal Deficit/GDP (pct)	4.2	3.0	2.8
Current Account Deficit/GDP (pct)	3.3	3.4	2.0
Debt Service Payment/GDP (pct)	8.2	7.6	7.9

Gold and Foreign Exchange Reserves	2,100	1,750	2,100
Aid from U.S.	0.9	0.9	8.4
Aid from All Other Sources 5/	N/A	N/A	N/A

1/ 1999 figures are all estimates based on available monthly data in November.
2/ GDP at factor cost.
3/ Percentage changes calculated in local currency.
4/ Merchandise trade.
5/ Tunisia does not publish official aid figures.

Source: Tunisian Central Bank and other government sources.

1. General Policy Framework

Tunisia has made significant progress toward establishing a market economy over the past decade. The European Union (EU)-Tunisian Free Trade Accord was signed in 1995 and formally came into effect on March 1, 1998. Tunisia, having started implementing significant reforms in 1996, is on schedule in reforming its economy as required by the Accord. Over a 12-year period, the terms of the Accord require the Tunisian Government to eliminate import tariffs and open the market to business competition. Although tariff revenues decreased from $732 million in 1997 to $620 million in 1998, they reached $741 million in 1999 due to increased levels of imports. Initially, the government expects significant economic turmoil as state owned firms are privatized, jobs are eliminated and companies are forced to become more efficient. This should adversely affect unemployment which is officially 15.6 percent, but is widely believed to be higher, with some regions registering 30 percent. However, in the long run, the accord should help the country by attracting foreign investment and creating an export-oriented economy based increasingly on manufactured products.

The government's fiscal policy is socially oriented, designed to raise living standards and reduce poverty while maintaining economic and political stability. Approximately 58 percent of the government's budget is allocated for social programs, providing subsidies for education, basic foodstuffs and support for the poorest sectors of society. Since 1996, annual minimum wage increases have kept pace with the official inflation rate, which has averaged less than four percent annually for the period. The government has been commended by the IMF for prudent fiscal monetary measures in 1997, including trimming government expenditures while implementing food and energy price increases, as well as lowering tariff and nontariff barriers to trade. These trends continued in 1998 and 1999.

Tunisia needed to raise $614 million in 1999 to finance its budget deficit which is equal to 2.8 percent of the 1999 projected Gross Domestic Product (GDP) of over $21.5 billion. Tunisia's economic performance and low perceived commercial and political risk have been recognized in international financial markets, permitting the government to successfully float loans in the bond market. In 1997, the government tapped the U.S. market for the first time with the successful issuance of $400 million of "Yankee" bonds. In 1999, Tunisia became the first African country to tap the Euro denominated bond market with a successful $209 million bond offering.

The government predicts GDP growth of 6.2 percent for 1999, after posting 5.0 percent GDP growth in 1998. Tunisia maintains significant trade barriers to control the growth of imports and contain its trade deficit, which decreased over four percent from 1998 to 1999. Imports of goods and agricultural products rose during the last three years despite increased domestic agricultural production. Imports of consumer goods increased enough in 1997 that the government unofficially began restricting some imports, but this was not the case in 1998 or 1999. Customs duties and other import taxes will remain in place. In 1999, U.S. goods represented only 4.1 percent of total goods and services imported, but the U.S. held an eight to one trade surplus (according to Tunisian statistics) with Tunisia, primarily due to agricultural products. Trade with the U.S. experienced a strong rebound in 1999 after a down turn in 1998, and the U.S.-North Africa Economic Partnership, proposed in 1998 and officially launched in March 1999, has the potential to bring about a significant increase in U.S. investment and trade with Tunisia. Opportunities for U.S. exports include electrical power generation systems, construction and engineering services, telecommunications and computer equipment, and agricultural products and equipment.

The government, which exercises considerable control over the central bank, the stock market and other financial institutions, has kept tight control of the money supply. During the three year span from 1997 to 1999, foreign exchange reserves have averaged about $2 billion, which represents between two and three months of imports. The government has continued its policy of not allowing the Tunisian Dinar to be traded on international markets. Government exchange controls for Tunisians traveling abroad were recently loosened to allow them to take up to $855 (1,000 dinars) per year out of the country, doubling the previous limit of 500 dinars per year.

2. Exchange Rate Policy

While the dinar is not traded internationally on the world market, it is commercially convertible for most trade and investment operations, though some restrictions apply. Central bank authorization is needed for large-scale foreign exchange operations.

The value of the dinar is tied to a basket of foreign currencies, primarily those of Tunisia's major trading partners, such as Germany, France, Italy, Japan and the United States. All exchange rate transactions are done internally, and the Tunisian Central Bank allows the rate to float within a narrow band fixed by the Bank. There is no "parallel" or black market for currency exchanges within Tunisia, although such markets for the dinar exist in Libya and Algeria. In 1999, the value of the dinar varied considerably versus the dollar. In January the dollar bought 1.09 dinars, and by July this reached 1.22. However, by November the rate had fallen to 1.18, giving the dollar an eight percent appreciation relative to the dinar year-to-date.

3. Structural Policies

To meet the terms of the EU-Tunisian Free Trade Accord, the government is continuing to introduce structural economic reforms initiated in 1987 with the IMF and IBRD. As customs duties are eliminated over a 12-year period for a wide range of imports, Tunisian companies will have to become more competitive or risk going out of business. In conjunction with the Accord and in response to World Bank suggestions, the government has vowed to accelerate its privatization program. The government privatized approximately 60 companies between 1987 and 1997 raising approximately $400 million. In 1998 alone, proceeds from privatization surpassed $400 million with the sale of approximately 20 additional companies. The sale of two cement plants accounted for $380 million of this amount. In 1999, the rate of privatization slowed considerably as the planned sale of three additional cement plants, with the reported value of $500 million, was rescheduled for 2000. Total receipts from privatization efforts in 1999 were well below $100 million.

Tax and customs policies favor "offshore" Tunisian-based foreign companies which manufacture locally and export 80 percent or more of their production, enjoying 10-year tax-free status and other benefits. Foreign companies that import materials for use or sale in the Tunisian market, however, have continued to see customs duties rise, where permitted by World Trade Organization (WTO) rules. This has adversely affected Tunisian-based U.S. companies which depend on materials produced in the United States for their products. Tunisia has three Value-Added Tax (VAT) rates (6, 18 and 29 percent) based on the category of good sold (i.e., luxury or staple products). In order to make up for the decline in import duties, the government raised its middle VAT rate in 1997 from 17 to 18 percent, and made greater efforts to enforce compliance on retailers, causing price increases on a wide range of domestic and foreign products. In 1999, receipts from VAT were 34 percent above the 1997 level due to an increase in the volume of imports.

As the government has continued to modernize its power generation utilities and industrial infrastructure, its official policy has been to make contract bidding transparent and open to foreign companies. U.S. firms have been actively encouraged to bid on a number of procurement contracts. Unfortunately, between 1996 and 1999, official tender policies were not always strictly adhered to and factors other than price and quality of technology offered appear to have played a role in the awarding of contracts. Examples, involving competing U.S. and foreign firms, include contracts in the electronics and agricultural sectors of the economy. Such occurrences could deter U.S. companies from bidding on future public contracts. However, private sector sources gave the government high marks for its transparency and fairness in handling the bidding for the Rades II independent power plant. This project was won by a U.S.-led consortium and is worth between $400 and $450 million. The contract for this project was signed in April 1999.

4. Debt Management Policies

According to recent reports by the World Bank and the IMF, the government has managed its external debt portfolio well and has never had to reschedule its debt payments. Tunisia has won high investment grade ratings from a number of international rating agencies, such as Standard and Poor's, which assigned its triple b minus long-term rating in 1999 to a $209 million Euro bond issue. In 1997, Tunisia tapped the U.S. bond market for the first time and raised $400 million. In addition, several Tunisian commercial banks worked with U.S. investment firms in 1998 to raise money in U.S. commercial markets.

In 1999, the government projected its foreign financing requirements to be approximately $762 million. In 1998, Tunisia's outstanding foreign debt increased by $860 million to $10.27

billion, representing approximately 47.8 percent of gross available domestic revenue. Debt service payments on foreign debt in 1998 are projected to be $1.7 billion. As mentioned above, the October 1998 privatization of two cement factories brought nearly $400 million to the Tunisian treasury, a timely infusion to address the budget deficit which saved the government from tapping the foreign debt market to meet that shortfall.

5. Aid

Tunisia's USAID program was terminated in 1998 due to the country's progress on economic growth and development. In 1999, U.S. aid to Tunisia amounted to $8.4 million in military aid. These funds were used for the following programs: $5 million of Draw Down Authority to procure existing U.S. military goods and services, $2 million of Foreign Military Financing to purchase U.S. military goods and services, $900,000 in International Military and Educational Training and $400,000 in Humanitarian Assistance. The government does not publish foreign aid figures, therefore, the amount of aid from other sources is unavailable.

6. Significant Barriers to U.S. Exports

Significant barriers do exist to U.S. exports to Tunisia. While Tunisia allows over 90 percent of goods to be imported without a license, import duties range from 10 to 230 percent (cheese 133 percent, milk 200 percent). In addition, certain luxury consumer items and durable goods can be assessed a consumption tax that can be as high as 500 percent (small engine automobiles 50 percent, large engine automobiles 295 percent, champagne 500 percent). The consumption tax is used to offset the gradual elimination of tariffs, and is levied predominately on luxury goods regardless of whether they are imported or produced in Tunisia. At the retail level, the VAT can be applied to certain categories of goods.

Import licenses are sometimes required for goods that compete against those produced by developing Tunisian industries, such as textiles. Licenses are also required for expensive consumer goods, such as automobiles, payment for which could adversely affect the short-term balance of payments. The stated purpose of the licenses is to allow nascent local industries to grow, and U.S. exports have been limited or prevented when they are seen to compete with them.

Tunisia is moving to embrace ISO 9000 standards and testing. The Tunisian Consumer Protection Law of 1992 established standard labeling and marking requirements, and goods not specified under existing Tunisian regulations must meet international standards.

While foreign investment is welcomed, investment barriers exist. For on-shore companies within the services sector (defined as those with more than 20 percent of output destined for the Tunisian market), the government must authorize a foreign capital share of more than 49 percent. Foreign investors are denied treatment on par with Tunisians in the agricultural sector, and although land may be secured for long-term leases (40 years), foreign ownership of agricultural land is prohibited. For foreign companies producing for the Tunisian market, local content provisions may apply, and hiring of foreign personnel is subject to regulation and usually limited to senior management. Normally, foreign companies cannot distribute products locally without a Tunisian distributor. The government does not allow the establishment of foreign franchise operations except in special circumstances. There is no limit on the amount of foreign currency which can be brought into the country, but any amount over TD 1,000 must be declared at the port of entry and only the unused dinar balance of declared foreign currency may be reconverted and taken out of the country.

Laws concerning government procurement practices are nominally designed to make contract bidding objective, competitive, and transparent. However, in several recent cases, factors other than those specified in the tender offer appear to have played a role in determining who won the contract. This has caused some concern that the government will allow factors other than price, competitiveness and quality of technology or services offered to be the determining factors in awarding government contracts.

Customs administrative procedures are often complex and burdensome, requiring time and patience to complete necessary paperwork demanded by the authorities. Problems that arise are addressed on a case by case basis, and business or political connections can greatly affect the rate at which products are cleared. Most foreign companies choose to work with private customs agents to expedite the processing of their imports.

7. Export Subsidies Policies

The government does not provide export subsidies to Tunisian companies.

8. Protection of U.S. Intellectual Property

Tunisia is a member of the World Trade Organization (WTO), but is availing itself of a transitional period provided to developing countries to phase in obligations under the WTO Trade Related Aspects of Intellectual Property (TRIPS) Agreement. Tunisia belongs to the World Intellectual Property Organization (WIPO), and is a signatory to the Berne Convention for the protection of literary and artistic works (copyright) and the Paris Convention for the protection of industrial property (patent, trademark and related industrial property). As a member of the World Intellectual Property Organization (WIPO) and as a signatory to the UNCTAD agreement on the protection of patents and trademarks, Tunisia has pledged to protect foreign property rights.

In 1998, the U.S. Trade Representative named Tunisia to the “Special 301” Other Observations List (the lowest level of inclusion) because of concerns over an absence of patent protection for pharmaceutical products that allows dozens of top-selling medicines to be sold in the local market. Once a medicine is manufactured in Tunisia, its importation is restricted, hindering access to the market for U.S. firms. In 1999, Tunisia did not appear on the "Special 301" list, because the "other" category was eliminated and it was determined that Tunisian IPR violations did not warrant inclusion in a higher category. Recent complaints of trademark pirating, largely in the field of apparel, and copyright infringement, such as software, recordings, and movies also indicate that IPR violation is a growing problem in Tunisia.

Registration of foreign patents and trademarks is required with the national institute for standardization and industrial policy. However, Tunisia's patent and trademark laws are designed to protect only duly registered owners. In the area of patents, U.S. businesses are guaranteed treatment equal to that afforded to Tunisian nationals. Copyright protection is the responsibility of a separate government agency, which also represents foreign copyright organizations. Tunisian Copyright Law has been updated, but its application and enforcement have not been consistent with foreign commercial expectations. Print and video media are considered particularly susceptible to copyright infringement.

9. Worker Rights

a. The Right of Association: The Constitution and the Labor Code stipulate the right of workers to form unions and this right is generally observed in practice. The Tunisian General Federation of Labor (UGTT) is Tunisia's only labor federation. About 15 percent of the country's work force are members, but a greater number are covered by UGTT negotiated contracts. The UGTT is independent of the government but certain laws restrict its freedom of action. The current UGTT leadership has tried to cooperate with the government and support its economic reform programs, in return for regular wage increases and protection for workers.

b. The Right to Organize and Bargain Collectively: This right is protected by law and observed in practice. Wages and working conditions are set in triennial negotiations between the UGTT member unions and employers, and anti-union discrimination by employers is prohibited. Though the government does not participate in the negotiations, it must approve, but cannot modify, the agreements decided upon.

c. Prohibition of Forced or Compulsory Labor: Tunisia abolished compulsory labor in 1989, and ended the practice of sentencing convicts to "rehabilitation through work" in 1995.

d. Minimum Age for Employment of Children: In August 1996, the Labor Code raised the minimum age for employment in manufacturing from 15 to 16 years, while the minimum age for light work in agriculture and nonindustrial sectors is 13 years. The government requires children to attend school until age 16 and employers must observe certain rules to insure children obtain adequate rest and attend school. The UGTT has expressed concern that child labor continues to exist disguised as apprenticeship.

e. Acceptable Conditions of Work: The Labor Code provides for a range of minimum wages, which are set by a commission of government, UGTT and employers' representatives. Most business sectors observe a 48-hour workweek, with one 24-hour rest period. The government often has difficulty enforcing the minimum wage law, especially in nonunionized sectors of the economy. Workplace health and safety standards are enforced by the government.

f. Rights in Sectors with U.S. Investment: Working conditions tend to be better in export-oriented firms than in those producing exclusively for the domestic market.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis **--** 1998

(Millions of U.S. Dollars)

Category		Amount
Petroleum		102
Total Manufacturing		27
Food & Kindred Products	27	
Chemicals & Allied Products	0	
Primary & Fabricated Metals	0	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
Banking		1
Finance/Insurance/Real Estate		0
Services		22
Other Industries		0
TOTAL ALL INDUSTRIES		153

Source: Department of Commerce, Bureau of Economic Analysis.